

**REPORT OF THE AUDIT OF THE
KENTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KENTON COUNTY SHERIFF

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the Kenton County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Fee account balances increased by \$76,242 from the prior calendar year, resulting in a cash surplus of \$673,145 as of December 31, 2001. Revenues increased by \$40,329 from the prior year and disbursements increased by \$185,705.

Report Comments:

- The Sheriff Should Submit Quarterly Reports To The Department For Local Government
- The Sheriff Incorrectly Maintained His Travel Account
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, County Judge/Executive

Honorable Charles L. Korzenborn, Kenton County Sheriff

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the Sheriff of Kenton County, Kentucky, and the statement of receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Sheriff and the receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, County Judge/Executive

Honorable Charles L. Korzenborn, Kenton County Sheriff

Members of the Kenton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Submit Quarterly Reports To The Department For Local Government
- The Sheriff Incorrectly Maintained His Travel Account
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
May 6, 2003

KENTON COUNTY
CHARLES L. KORZENBORN, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS

For The Year Ended December 31, 2001

Receipts

Federal Salary Reimbursements - FBI (Note 7)		\$	9,863
Federal Asset Forfeiture - FBI (Note 5)			1,849
State Fees for Services			
KLEFPF Funds	\$	65,150	
Summoning Witnesses		81	
Court Service Fees		251,249	
Conveying prisoners		8,521	325,001
Circuit Court Clerk			
Sheriff's Security Service			135,847
Fiscal Court			
Election Commissioner			130
County Clerk			
Delinquent Tax Fees			6,899
Commission on Taxes			1,996,489
Fees Collected for Services:			
Auto Inspections	\$	65,490	
10% Add-on Fees		139,407	
Serving Papers		198,483	
Executions		943	
Carrying Concealed Deadly Weapon Permits		35,095	
Sheriff's Advertising Fees		7,105	
Tax Inquiry Fees		1,176	447,699
Other Receipts:			
Bad Check Charge	\$	750	
Donated Equipment (Note 6)		459	
Interest Earned		23,389	
Miscellaneous		4,278	28,876
Total Receipts		\$	2,952,653

The accompanying notes are an integral part of the financial statement.

KENTON COUNTY
 CHARLES L. KORZENBORN, SHERIFF
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$	24,075
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Other Disbursements:

Payroll (Note 7)	\$	9,863	
Deputy Equipment (Note 6)		344	
Bank Service Charges (Note 6)		115	
Transport Bus Equipment (Note 5)		1,849	12,171
			<hr/>

Total Disbursements		\$	36,246
			<hr/>

Net Receipts	\$	2,916,407
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Payments to State Treasurer:

75% Operating Fund	\$	2,297,955	*
25% County Fund		618,452	2,916,407
		<hr/>	<hr/>

Balance Due at Completion of Audit	\$	0
		<hr/> <hr/>

*Includes reimbursed expenses of \$465,563. See Note 1B.

KENTON COUNTY
 CHARLES L. KORZENBORN, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER

For The Year Ended December 31, 2001

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2001	\$ 596,903	\$	\$ 596,903
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,297,955		2,297,955
Fees Paid to State - County Funds (25%)		618,452	618,452
Total Funds Available	\$ 2,894,858	\$ 618,452	\$ 3,513,310
<u>Disbursements</u>			
Kenton County Government	\$	\$ 618,452	\$ 618,452
Personal Services-			
Deputies' Salaries	1,322,354		1,322,354
Official's Statutory Maximum	79,141		79,141
Employee Benefits-			
Employer's Share Social Security	100,653		100,653
Employer's Share Retirement	173,725		173,725
Employer's Paid Health Insurance	220,362		220,362
Contracted Services-			
Equipment Maintenance	5,249		5,249
Advertising	568		568
Physicals and Drug Testing	1,775		1,775
Data Processing	25,000		25,000
Tax Lockbox	1,512		1,512
Materials and Supplies-			
Office Materials and Supplies	11,681		11,681
Deputy Supplies	16,326		16,326
Uniforms	28,697		28,697

The accompanying notes are an integral part of the financial statement.

KENTON COUNTY
 CHARLES L. KORZENBORN, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE
 SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER
 For The Year Ended December 31, 2001
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 8,882	\$	\$ 8,882
Dues	1,796		1,796
Postage	4,456		4,456
Parking	13,608		13,608
Pager	1,564		1,564
Telephone	12,606		12,606
Miscellaneous	15,368		15,368
Auto Expenses			
Gasoline	29,995		29,995
Maintenance and Repairs	20,472		20,472
Capital Outlay-			
Vehicle	68,766		68,766
Debt Service-			
Vehicle Lease-Purchase - Interest	2,320		2,320
Vehicle Lease-Purchase - Principal	54,837		54,837
Total Disbursements	<u>\$ 2,221,713</u>	<u>\$ 618,452</u>	<u>\$ 2,840,165</u>
Fund Balance - December 31, 2001	<u>\$ 673,145</u>	<u>\$ 0</u>	<u>\$ 673,145</u>

The accompanying notes are an integral part of the financial statement.

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2001
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent for the first six months of the year and 16.28 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Lease-Purchase

The Office of the County Sheriff was committed to a lease agreement with Ford Motor Company for eight (8) Crown Victorias. The agreement required an annual payment of \$57,963 for three years, beginning October 1, 1999 and ended on October 1, 2001. The lease agreement has been completed leaving no balance.

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2001
(Continued)

Note 5. Federal Asset Forfeiture - FBI

In September 2000, the Sheriff received \$2,361 from the U.S. Department of Justice, Federal Bureau of Investigation as proceeds from an asset forfeiture. Expenditures in the amount of \$512 were made in 2000, leaving a balance in the account of \$1,849 at December 31, 2000. The remaining balance of \$1,849 was expended during 2001.

Note 6. Donated Equipment

The Sheriff received several donations in the amount of \$4,905 from private enterprise in the County to purchase equipment. Funds totaling \$459 were expended during 2001. The unexpended balance was \$4,446 in the account as of December 31, 2001.

Note 7. Federal Salary Reimbursement - FBI

The Sheriff entered into an agreement with the U.S. Department of Justice, Federal Bureau of Investigation to pay for overtime for a deputy assigned to the formalized Covington/Newport Safe Streets Task Force. In 2001, \$9,863 was expended and reimbursed for this purpose.

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COMMENTS AND RECOMMENDATIONS

KENTON COUNTY
CHARLES L. KORZENBORN SHERIFF
COMMENTS AND RECOMMENDATIONS

December 31, 2001

STATE LAWS AND REGULATIONS

1. The Sheriff Should Submit Quarterly Reports To The Department For Local Government

Pursuant to KRS 68.210, the Sheriff is required to complete quarterly reports and submit them to the Department for Local Government. During our audit, we noted that these reports were not completed and sent. We recommend the Sheriff begin preparing the reports as required.

County Sheriff's Response:

Dick is working on this.

2. The Sheriff Incorrectly Maintained His Travel Account

Per memo dated July 29, 1999 from the Finance and Administration Cabinet to Sheriff's offices in counties with a population of over 70,000, Sheriffs are allowed to establish a travel account. This account should **only** be used for expenses incurred for out-of-state travel to transport prisoners. During our audit, we noted that this account was used to cover training expenses. Training expenses should be paid for by employees and reimbursed per travel vouchers. We recommend the Sheriff maintain and manage the travel account as allowed by the Finance and Administration Cabinet.

County Sheriff's Response:

Will check with Marie on training account.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations and job assignments, the Sheriff has not established an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- Separate individuals should post receipts to ledger and make deposits.
- Individual making deposits should not have access to cash drawers.
- Individual opening mail should have no access to cash receipts records.

County Sheriff's Response:

Separate agency (5/3rd) Bank opens majority of tax mail (payments).

KENTON COUNTY
CHARLES L. KORZENBORN COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
December 31, 2001
(Continued)

PRIOR YEAR:

1. The Sheriff Incorrectly Maintained His Travel Account

This comment has not been corrected and is repeated.

2. Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the Kenton County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated May 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Sheriff's financial statements for the year ended December 31, 2001, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Submit Quarterly Reports To The Department For Local Government
- The Sheriff Incorrectly Maintained His Travel Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 6, 2003

